

Volume 1, Issue 6

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Your Savings Program

More Information? Call 1-888-1SAVEIT

You Can't Take It With You, But You Can't Leave It Here Forever

The major tax advantage of qualified retirement plans, both our Defined Benefit (The Pension Plan) and our 401(k) Defined Contribution (Savings Program) is that contributions and earnings on the contributions are not subject to tax until withdrawn from the plan. The tax advantages of these programs make them far superior to the traditional after-tax, non-qualified, savings account. In the traditional plans, the contribution has been taxed before it was made and the earnings are subject to tax each year. Given the qualified plan advantage, it is not surprising that many of our participants want to take advantage of this feature for as long as possible. Careful planning may result in the



Savings Power-A Key to Financial Security

Y2K

How did you do? Based on the information made available to us, there were no Y2K Savings Program problems. We would be very interested in knowing if you had any difficulties, either in the Savings Program or with other financial institutions. State Street Bank informs me that the use of the "market value" statements was very popular.

Let us know, give us a call.



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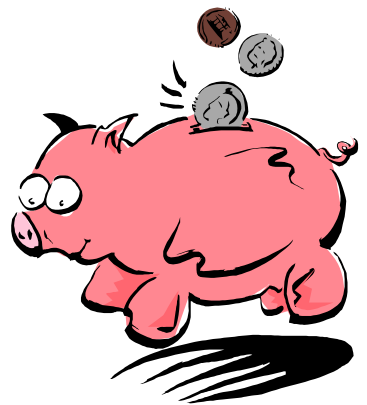
lowest possible tax bite out of your savings.

While the IRS is patient in deferring your taxes, it will not wait forever. The Internal Revenue Code provides for a required distribution of funds for those participants who achieve age 70 ½. The rules differ for the defined benefit and defined contribution plans. We will restrict our explanations in this newsletter to the defined contribution or Savings Program features. If you are still working for the Company when you reach age 70 ½, you have an option to postpone the start of your distribution to the year in which you terminate from service.

The section of the Internal Revenue Code and Regulations that govern these rules are referred to as the “required minimum distribution” rules.

The basic rule is that the participant must commence a series of payments from the plan to the participant that will result in distributing their entire account balance over their remaining life expectancy or over the joint life expectancies of the participant and the designated beneficiary. These rules not only require that the funds be distributed, but also require that the taxable portion of the distributions be recognized as income and not “rolled over” to an Individual Retirement Account.

Mechanically, State Street Bank and Trust employs a computer program that determines the market value of the account at the beginning of the year, selects a factor from a life-expectancy table and computes a required distribution. For example, if the market value at the beginning of the year was \$50,000.00 and the life-expectancy table factor was 18.9, then the required minimum distribution would be \$2,645.50. If no distributions had been taken during the year, then State Street would distribute \$2,645.50 ($\$50,000.00 / 18.9$) during December of the computation year.



There are three components of the computation. The first is the market value at the beginning of the year. Because market values change based on the earnings of the fund, the market value will be different each year that a required minimum distribution is computed.

The second is a table factor based on life expectancy. The participant has a choice of using their life expectancy or the joint life expectancies of themselves and a designated beneficiary. The life expectancy factor is re-computed each year, based on the age of the participant (or the joint lives) at the beginning each year. Life expectancy does not necessarily decrease by one year for each year of calculation. Participants may vary their distribution periods by selecting their designated beneficiary. If a participant selects a designated beneficiary that is more than 10 years younger than the participant, and the beneficiary is not the spouse of the participant, special rules apply. The IRS will not allow a significant discrepancy in life expectancies and the tables limit the factors accordingly.



The third factor is the amount of distributions taken earlier during the year prior to the required minimum distribution. State Street Bank will only distribute the required minimum. If distributions have been taken prior the required minimum distribution, these distributions will be subtracted from the calculation. Keep in

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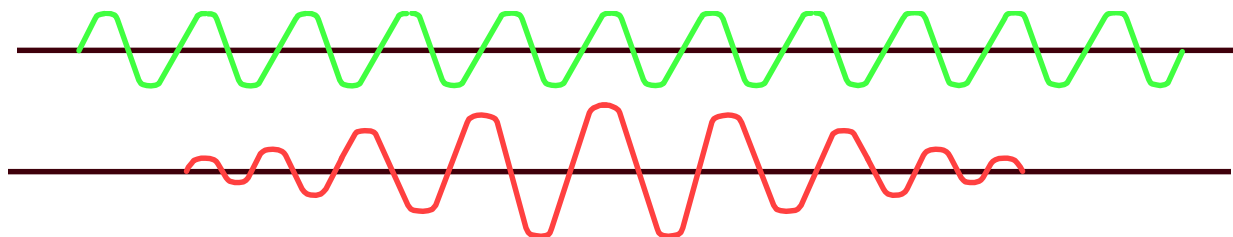
mind, that State Street Bank is aware of the required distribution from the first day of the year. Any distributions taken during the year, up to the required minimum will not be available for “roll-over.” You can’t get ahead of the IRS by trying this.

How does all this work with your Savings Program? First, most of the steps to help you make your decisions are already in place. You do not have to request a required minimum distribution. The recordkeeping system is programmed to keep track of your age and to notify you in the year in which you achieve age 70 ½ that a required minimum distribution is due, assuming you have terminated employment. The recordkeeping system first calculates the required distribution, then looks to see if there have been any distributions during the year that may satisfy the required minimum distribution requirements. (As a planning note, if you are already using a installment payment based on life expectancies, you may have satisfied the “required minimum distribution” requirement for the year. Installment payments based on life expectancies use the same tables as the required minimum distribution. But you need to be careful here. If you have been rolling the taxable portion of the installment payments an IRA, you will need to do a special calculation.) If a required minimum distribution must be made, the system notifies you by mail. The system then asks you to elect to take a payment using the single or joint life expectancy tables. If you elect joint life expectancies, the letter requests that you provide the name of the designated beneficiary and also to provide the age of the designated beneficiary. The letter also provides for your withholding tax elections. Upon receipt of the letter from you, the system makes the proper calculations and sends you a check for the distribution required in December of the election year. Once you commence a distribution, this same process is repeated each year, with a recalculation of life expectancies done each time.



Many of our participants have substantial account balances and the distribution of funds that cannot be “rolled over” may have a significant impact on their tax planning. We encourage you to seek tax advice well before you are faced with a distribution that must be taken into income. You will find IRS Publications 575 and 590 helpful in addressing these issues.

As always, if you have a question please call.





Don't Ignore Your 1099-R.

If you had a distribution from the Plan of any type during 1999, State Street Bank will be sending you a Form 1099. Please follow the instructions on the Form with regard to reporting your information to the IRS. Don't assume that because you think the transaction was not taxable, that you don't have to report the information on your tax return. If in doubt call State Street Bank or consult you tax advisor.

Many distributions that don't result in taxable income must still be reported on your Form 1040. Good information regarding the reporting of your 1099 items may be found in:

IRS Publication 17-Your Federal Income Tax

IRS Publication 575-Pension and Annuity Income

You may obtain these by telephone at 1-800-829-3676 or on the IRS Web site at www.irs.gov.

You finish first with a solid personal financial plan.



Keep in Touch
Contact Benefits Administration
by Calling M.L. Moore at 423-574-9564
or sending an E-mail to ik5@ornl.gov